

# Ag Decision Maker

## A Business Newsletter for Agriculture

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### Cash rental rates fall for a fourth consecutive year in Iowa

By Alejandro Plastina, extension economist, 515-294-6160, [plastina@iastate.edu](mailto:plastina@iastate.edu)

A survey, carried out by Iowa State University Extension and Outreach, shows that cash rental rates for farmland in Iowa fell by 4.8 percent in 2017, accumulating an 18.9 percent decline since 2013. Despite falling for a fourth consecutive year, the average cash rent in 2017 is still higher than the average rate in 2011 (Figure 1). In comparison, the 19 percent cumulative decline in cash rents is only about one third (half) the cumulative 57 (37) percent decline in corn (soybean) prices between 2012/13 and 2017/18 reported in the USDA Agricultural Projections to 2026 (published in February 2017).

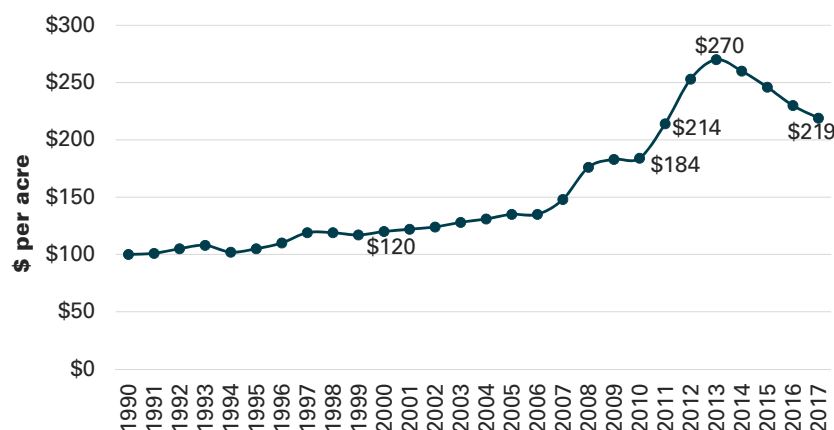
Iowans supplied 1,448 responses about typical cash rental rates in their counties for land producing corn and soybeans, hay, oats, and pasture. Of the responses, 52 percent came from farmers, 29 percent from landowners, 9 percent from agricultural lenders, 9 percent from professional farm managers and realtors, and 2 percent from other professions. Respondents indicated being familiar with a total of 1.7 million cash rented acres across the state.

The [Cash Rental Rates for Iowa 2017 Survey publication](http://www.extension.iastate.edu/agdm/wholefarm/pdf/c2-10.pdf) ([www.extension.iastate.edu/agdm/wholefarm/pdf/c2-10.pdf](http://www.extension.iastate.edu/agdm/wholefarm/pdf/c2-10.pdf)) provides detailed results by county.

There was considerable variability across counties in year-to-year changes, as is typical of survey data, but 82 counties experienced declines in average rents for corn and soybeans. The report also shows typical rents for alfalfa, grass hay, oats, pasture, corn stalk grazing, and hunting rights in each county and district.

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**Figure 1. Average cash rents in Iowa, in \$ per acre per year**



### Handbook updates

For those of you subscribing to the handbook, the following updates are included.

**Seasonal Hog Price Patterns – B2-14** (4 pages)

**Improving Your Farm Lease Contract – C2-01** (10 pages)

**Cash Rental Rates for Iowa 2017 Survey – C2-10** (12 pages)

Please add these files to your handbook and remove the out-of-date material.

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### Inside . . .

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Cash rental rates fall for a fourth consecutive year in Iowa, continued from page 1

## Survey shows decline in most districts

Statewide, reported rental rates for land planted to corn and soybeans were down from \$230 per acre last year to \$219 in 2017, or 4.8 percent. This decline is more than double the decline in Iowa farmland values between March 2016 and March 2017 reported in surveys conducted by the Iowa REALTORS Land Institute, see AgDM File C2-75, [Farmland Value Survey \(REALTORS Land Institute\)](http://www.extension.iastate.edu/agdm/wholefarm/pdf/c2-75.pdf) (www.extension.iastate.edu/agdm/wholefarm/pdf/c2-75.pdf). But the 18.9 percent accumulated decline in rental rates since 2013 is in line with the cumulative 17.4 percent decline in land values reported in the [Iowa Land Value Survey](http://www.card.iastate.edu/land-value/overview/) (www.card.iastate.edu/land-value/overview/) published by the ISU Center for Agriculture and Rural Development, also available in AgDM File C2-70, [Farmland Value Survey](http://www.extension.iastate.edu/agdm/wholefarm/pdf/c2-70.pdf) (www.extension.iastate.edu/agdm/wholefarm/pdf/c2-70.pdf).

Different regions experienced different changes in cash rents: from a 1.5 percent increase in Crop Reporting District 9 to a 10.3 percent drop in District 2 (Figure 2). Northern and Central Iowa (Districts 1-6) continue to have higher cash rents than Southern Iowa (Districts 7-9).

## Rents for high quality land rents declined the most

Not all land qualities have seen their cash rents decline proportionately. High quality land experienced a 5 percent decline, from \$270 per acre in 2016 to \$256 in 2017, accumulating a 21.9 percent decline since 2013.

Medium quality land experienced a 4.6 percent decline, from \$230 per acre in 2016 to \$220 in 2017, accumulating an 18.9 percent decline since 2013.

Low quality land experienced a 4.4 percent decline, from \$191 per acre in 2016 to \$183 in 2017, accumulating a 13.9 percent decline since 2013.

## Setting rents for next year

Survey information can serve as a reference point for negotiating an appropriate rental rate for next year. However, rents for individual farms should be based on productivity, ease of farming, fertility, drainage, local price patterns, longevity of the lease, and possible services performed by the tenant.

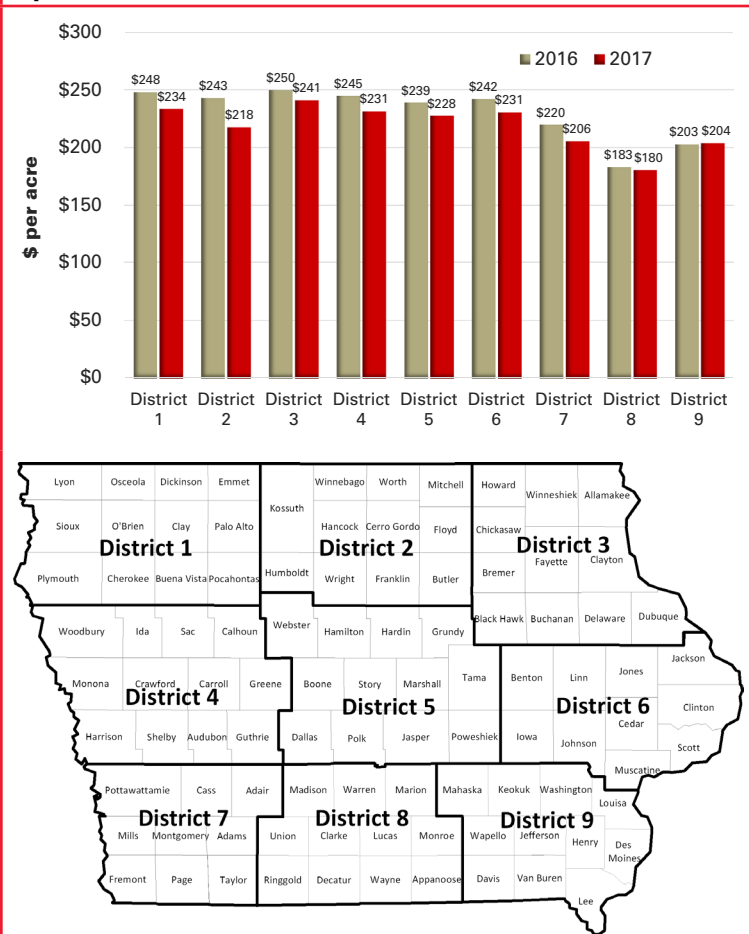
Two major factors with the potential to influence future cash rents are crop prices and land values. Corn and soybean prices received in Iowa peaked in August 2012 at \$7.90 and \$16.80 per bushel, respectively. In March 2017, corn and soybean prices were \$3.40 and \$9.60 per bushel, respectively, a 57 percent and 43 percent decline from their peak values. Due to current and projected low crop prices, profit margins in corn and soybean production on cash rented acres are

expected to remain very tight, and most operators will likely attempt to negotiate lower rents to cash flow the operation.

The second major factor affecting cash rents is the return on investment for landowners. The average return on investment for landowners who cash rent their land to operators has followed a declining trend since the early 1990s, and it has stabilized at around 3 percent after 2010. Note that this ratio does not measure net returns because ownership costs, such as real estate taxes, are not taken into account in its calculation. However, it is indicative that landowners (whose goal is to obtain a reasonable rate of return on their real estate assets) will likely be hesitant to accept lower cash rents in the future unless land values continue to decline (in which case cash rents calculated as a percent of land values will also fall).

More farmland leasing resources are available on the [AgDM Leasing page](http://www.extension.iastate.edu/agdm/wdleasing.html) (www.extension.iastate.edu/agdm/wdleasing.html). For questions regarding the cash rent survey, contact the authors. For leasing questions in general, contact the [farm management field specialist](http://www.extension.iastate.edu/ag/farm-management) in your area (www.extension.iastate.edu/ag/farm-management).

**Figure 2. Average cash rents by Crop Reporting District, in \$ per acre**





## Ag cooperatives consolidating, too\*

By Keri Jacobs, Iowa Institute for Cooperatives endowed economics professor and extension economist, 515-294-6780, [kljacobs@iastate.edu](mailto:kljacobs@iastate.edu)

**T**he agribusiness landscape is in transition locally and globally. In the Midwest, a segment of traditional row-crop operations are growing at break-neck speed, fueled by recent years of high commodity prices, built-up working capital, favorable borrowing conditions, and technology. Yet an equally viable segment of farmers are remaining relatively small, by choice.

This diversity is mirrored at the ag retail level, too. An uptick in consolidation activity among the grain marketing and input supply firms has emerged in the last four years, and yet some are choosing to stay small, successfully so. The dual-role firms and also specialized dealers and retailers face significant pressures in their own upstream and downstream environments, negotiating and transacting in increasingly concentrated and complex fertilizer and seed markets while also managing grain movements and margins with processors and end users that dwarf them in size.

The changing landscape of agribusiness raises questions about the role and relevance agricultural cooperatives. Consolidation and the challenges it imposes are not unique to co-ops, but their effects within the co-op system are remarkable, and the current environment differs from past periods of consolidation.

### Growth mirrors producers

The consolidation trend in co-ops starts with producers. According to USDA's National Agricultural Statistics Service (NASS), Iowa had approximately 121,000 farms at the end of the 1970s, with an average farm size of 275 acres. By 2015 that profile shifted dramatically: NASS estimates there were 87,500 farms with an average size of 349 acres.

In 2005, about 6.9 million acres of Iowa's farmland was held by farms with over \$500,000 in sales. By 2015, that number nearly tripled to 18.2 million acres. Mid-sized and large farms grew during this time while the smaller farms remained relatively consistent, perhaps growing modestly. The result is a significant change in the diversity of farms in Iowa by size, by operational enterprises, and in their needs.

As farms grow, the agri-businesses that serve them must grow to remain

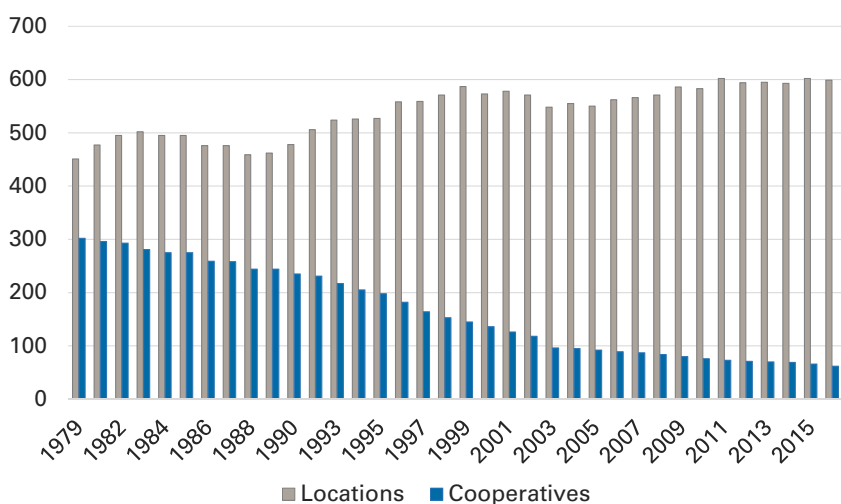
relevant to the farmers' needs, or be outgrown. Figure 1 shows that from 1979 through 2016, the number of co-ops headquartered and doing business in Iowa fell from 350 local grain and farm supply co-ops to approximately 55. Interestingly, the number of locations maintained by co-ops in Iowa increased, primarily due to acquisition of non-cooperative firms. Instead of each co-op being a one- or two-location company, as in 1980, the average is now approximately 10 locations per co-op. Nearly every rural town in Iowa still has a co-op close by, but is now the same as that in the neighboring town.

### Drivers of consolidation

Consolidation – growth via acquisition or merger – is not new. A constant force driving consolidation is growth in size and scope of member-producers' operations, but periodically other factors accelerate the activity. Two notable periods of consolidation activity occurred in the last four decades. The first was the farm financial crisis in the 1980s. Co-ops financially susceptible to the losses generated from farm failures and tight commodity margins were absorbed by surviving co-ops. Non-cooperative assets were part of that, too. The second period was in the mid- and late-1990s when many co-ops found themselves in speculative (and losing) positions due to multi-year hedge-to-arrive contracts. Financial weakness in this period was the catalyst for consolidation and surviving co-ops acquired assets from co-ops and non-cooperative firms.

Today's catalyst is different. Even with tightening grain margins, little commodity price movement in a relatively

**Figure 1. Consolidation of Iowa's grain & farm supply cooperatives 1979 - 2016**



Ag cooperatives consolidating, too, continued from page 3

low-price environment, and pressure from private retailers and wholesalers on the input side, co-ops in Iowa maintain fairly strong balance sheets, with sufficient working capital and good leverage positions. The co-ops are merging as part of an offensive growth strategy, citing the need to service producers whose operations are growing, enhanced efficiencies and access to strategic resources.

The gains-in-efficiency argument is common among consolidating firms, including the "mega-merger" firms like Bayer/Monsanto and Dow/DuPont. Despite the fact that these integrations are horizontal rather than vertical in nature, the companies identify the potential for significant savings in R&D, personnel expenditures, and streamlined contracting and negotiations. Co-ops in Iowa that have consolidated or have contemplated the move also look to the potential efficiency gains. Cases are made for economies of scale the ability to capitalize on technical production factors -and economies of size-reduction in long run average costs. Co-op boards and executive teams see an opportunity for cost efficiency in administration and operations, including eliminating redundancies in personnel and opportunities for upgrades in systems related to HR, accounting, and IT.

Besides the potential for efficiency gains, co-ops view consolidation as a growth path via access to two strategic resources, not necessarily mutually exclusive: human capital and assets that create value for producers. By becoming a larger company, they can offer employees and potential new employees a more defined career path, thus improving the co-op's ability to recruit and retain talent. They are not wrong about this: young talent is attracted to growing companies, to state-of-the-art facilities and to upward mobility. Human capital is a critical strategic resource and driver of consolidation today.

The second type of strategic resource held up as a reason to merge is assets, particularly those with some form of assets specificity, whether it be location-based or use-based. Acquiring access to assets that open up new markets (e.g., soy processing, ethanol) for the co-op and its members creates value without, in most cases, taking on significant new construction, investments, and additional debt.

Value creation for members is the name of the game in the cooperative world, and in an increasingly competitive environment with tightening on-farm situations, co-op members value strategic movements that open the door

for greater firm profitability without sacrificing on-farm profitability.

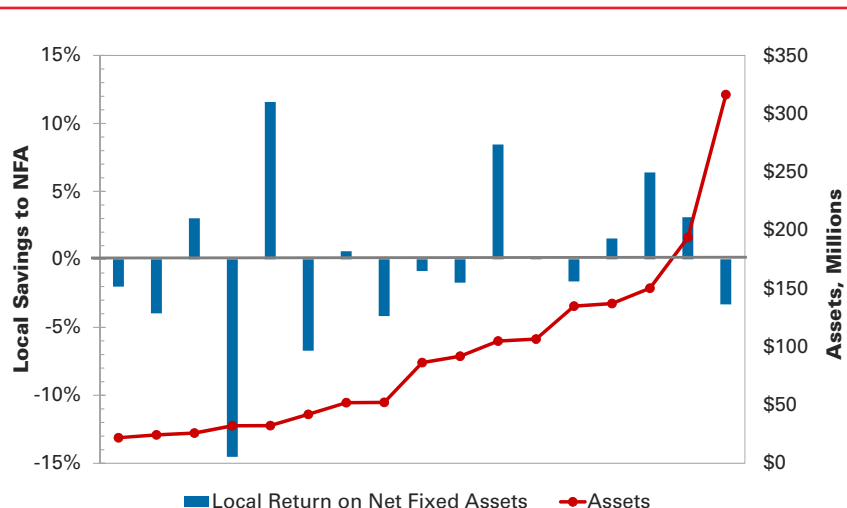
Co-ops came from defensive origins. Iowa's producers in the late 1800s and early 1900s organized cooperative associations to gain bargaining power and enhance their prices and negotiating ability in an era where there was otherwise little protection or representation. It was push-back against the dominating trusts and "big business." Even consolidation historically has been defensive or reactive in nature. However, the current wave of co-op consolidations is primarily driven by offensive posturing and a desire to capitalize on strategic opportunities to benefit member producers, thus making it a fundamentally different period of consolidation than witnessed in the last half a century.

## A game changer?

Quite undeniably, consolidation is a game-changer for co-ops. Recent consolidation efforts are impressive, and they are changing the way co-ops are perceived, forcing co-op boards and managers to rethink strategy, and quite frankly, making producers nervous. Importantly, it has not changed fundamentally the co-op's main purposes that drive decisions: producer interest and benefits remain at the core of co-ops' decisions. The significance of producer heterogeneity, though, cannot be overstated.

A question posed, and naturally so, is whether getting bigger will make the company "better" – more profitable, presumably. If there are truly efficiencies to consolidating then it should be the case that larger companies are more profitable. Figure 2 illustrates the relationship between size and performance for 18 co-op companies in Iowa and bordering states, based on CoMetrics data. The data have been arranged from smallest to largest by total asset value in the third quarter of 2016 (right vertical axis). The blue

**Figure 2. Financial Performance and Size, Rolling Qtr 3, 2016**



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*Ag cooperatives consolidating, too, continued from page 4*

bars represent performance as measured by the ratio of local savings to net fixed assets, which is one indication of the cooperative's efficiency in the use of fixed assets to generate gross margins from operations and manage expenses.

There is no discernible correlation between size and overall financial performance, except perhaps in the variability of the performance, which is not captured here. The same perspective emerges when alternative financial performance metrics are used, and this is robust back to 2010 and in any quarter. Admittedly, these data cannot show how a single co-op's performance is different pre- and post-merger, and financial improvement due to efficiency gains may take years to recognize.

Regardless, it is not the case in these data that the bigger co-ops achieve superior financial performance. Further, while it can be informative to compare financial performance of co-ops, evaluating co-ops by profitability – and consolidation by its effect on profitability – is a narrow perspective because co-ops do not have profit maximization as their objective. Profitability is a means to an end.

The true metric by which co-ops should be judged is value-creation, and this is particularly true in the case of consolidation. The value proposition of a co-op is much broader than any pecuniary measure. It is the provision of products and services to meet members' needs and operational practices by the co-op that help members achieve enhanced on-farm profitability. It is market stability, existence value, risk pooling, community development, and education. In this sense, promoting consolidation as a mechanism for greater profitability may actually be counterproductive.

This is particularly true now. Members observe that as the co-op gets bigger and as members become more diverse, "benefits," defined more broadly, that accrue to individual members are not equal. Measuring and conveying whether and to what extent growth via consolidation improves the value to any one member is much harder today than in the past. Value is in the eyes of the beholder, which gets at the heart of why consolidation may not achieve the efficiencies desired by boards and managers.

### **Member diversity matters**

Fifty years ago or more, the membership for any given co-op was remarkably homogenous, with similar crop rotations and enterprise mixes, likely even the same religious background and cultural origins. As co-ops have grown into neighboring counties, merged with other co-ops and gained locations on the opposite side of the state, their membership demographics have changed drastically. And this is true on some degree even without

consolidation: producers within a local area are more diverse. Co-ops today, including smaller ones, do not have an "average" "producer demographic and there exists a tangible challenge to be "the co-op" for every member or local producer.

As members become more diverse, as how they derive value from the co-op changes, and as the co-op grows and becomes more diverse, frictions are created. A co-op cannot be all things to all members; it must make decisions about how to best serve the entire memberships' needs in a time when those are changing rapidly, and diverging. Importantly, it must be able to convey that message. Member-level and even employee-level frictions from consolidation, erode loyalty, cohesiveness and ultimately, cooperation among members. This erosion deserves the attention of boards and management.

### **History lessons**

Members of larger or recently merged co-ops say things like, "It's not my co-op anymore" and "It is just another big business." These statements are evidence of the member-based frictions associated with growth, and they create a significant potential for drag on a firm's performance. They may be a reason the co-op is unable to obtain efficiencies from consolidation. Perhaps more important, they are telling of what the members say they value in the cooperative: small, local and probably also high-touch. But that sentiment is missing a perspective about the number one reason the co-op exists: market place protection for producers.

Most agricultural co-ops' histories in Iowa date back to the late 1800s. Producers formed co-ops to have a collective voice in the market for their goods and in dealing with upstream and downstream partners. Producer associations made it possible for their member-owners to gain a larger share of the value of their outputs. Producers are leery of bigger companies as trading partners, and as their co-ops have grown, members are questioning whether it is just another big company operating with less regard for them and their needs. This is a natural response, but false in most cases.

The wave of consolidation today represents precisely the ideals and normative pursuits with which producers charged their early co-ops: market access and power, risk pooling and enhanced bargaining effectiveness on behalf of its members. The "big six" corporations that control the inputs to production ag are merging in some fashion, and even before merger, dwarf any co-op in the Midwest. Producers absolutely need their cooperatives – individually or collectively – to be big enough to negotiate effectively on their behalf. How big is that? Time will tell, and it will be different for each co-op.

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## A new era

Co-ops exist to protect their members' interests. Education about this is needed to help producer members understand how and why the value proposition of their co-op shifts as a result of consolidation. Given what is transpiring at all levels in the ag supply chain, consolidation may be the best chance producers have to ensure the provision and protection of a competitive and value-added market place for their input needs and outputs.

It is a new era. Consolidation does not signal an identity crisis of the co-op business model except perhaps in their members' eyes. Members' expectations of the co-op are competing: maintain local assets, be sufficiently diverse to service big and small producers whose diversity is increasing rapidly, and still protect the local marketplace on members' behalf in the concentrated and integrated agricultural supply chain. These interests are at odds and create a catch-22 for some co-ops. How co-op leaders manage their members' expectations about the role and value of the co-op will determine the systems' success.

*\*This article originally appeared in AgriMarketing, April 2017 issue.*

## Share Feedback on Ag Decision Maker

To help make Ag Decision Maker the best resource possible, we invite you to share your feedback through a short on-line survey. Please take five to ten minutes to complete [this short survey](https://iastate.qualtrics.com/jfe/form/SV_6R4sqe0udZf1ifj) ([https://iastate.qualtrics.com/jfe/form/SV\\_6R4sqe0udZf1ifj](https://iastate.qualtrics.com/jfe/form/SV_6R4sqe0udZf1ifj)). If you have already completed the survey, thank you for sharing your opinion!

*Updates, continued from page 1*

## Internet Updates

The following Information Files and Decision Tools have been updated on [www.extension.iastate.edu/agdm](http://www.extension.iastate.edu/agdm).

Constructing a Farm Succession Plan: Elements to Consider – C4-17 (3 pages)

Evaluating Your Estate Plan: Forms of Property Ownership – C4-51 (4 pages)

Evaluating Your Estate Plan: Estate Planning Goals – C4-58 (4 pages)

Key to Successful Business Transfers – C4-76 (3 pages)

Income Tax Considerations of Business Transfers – C4-81 (3 pages)

## Current Profitability

The following tools have been updated on [www.extension.iastate.edu/agdm/info/outlook.html](http://www.extension.iastate.edu/agdm/info/outlook.html).

Corn Profitability – A1-85

Soybean Profitability – A1-86

Iowa Cash Corn and Soybean Prices – A2-11

Season Average Price Calculator – A2-15

Ethanol Profitability – D1-10

Biodiesel Profitability – D1-15

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